



County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
<http://ceo.lacounty.gov>

WILLIAM T FUJIOKA
Chief Executive Officer

August 1, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

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MEDICARE PART D (ITEM NO. S-1 AGENDA OF AUGUST 5, 2008)

On July 29, 2008, on motion by Supervisor Burke, your Board directed this Office to work in concert with the Interim Director of Health Services to conduct a comprehensive analysis, citing all the pros and cons, of enabling our healthcare system to accept Medicare Part D prescription drug coverage; and directed this Office to report back with findings and recommendations at the Board meeting of Tuesday, August 5, 2008.

BACKGROUND

On June 5, 2007, on motion of Supervisor Burke your Board instructed this Office, in concert with the Director of Health Services, to immediately reassess and amend, as necessary, the existing policy which excludes Medicare Part D (MP-D) prescription coverage and report back within 15 days with any findings and recommendations. In response to the motion, a report was provided to your Board on June 20, 2007.

The June 20 report provided a summary of the history and current state of MP-D, as well as key points of the initial assessment of the program, which identified the following items and also requested additional time to perform a complete analysis:

- The estimated number of Department of Health Services (DHS) patients with existing Medicare fee-for-service is approximately five to seven percent [128,000 visits based on fiscal year (FY) data for 2005-06].

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- The timeline for contracting with multiple California-approved, Prescription Drug Plans (PDP) was expected to be lengthy.
- The current DHS outpatient pharmacy system lacks the technology to provide automated billing/regimen review, which is a contractual requirement for clinical and financial adjudication for multiple PDP plans.
- Additional pharmacy and staffing resources may be required to handle the increase in prescription volume.
- An extensive MP-D pharmacy network community exists in close proximity, ranging from 0.1 to 4.0 miles, of DHS hospital and outpatient clinics.

It should be noted that the June 5, 2007 motion arose out of concern that DHS was not honoring MP-D prescription coverage. A particular instance occurred in which an elderly patient, with MP-D coverage, required injectable medication and was erroneously sent by DHS staff to a PDP pharmacy to obtain the medication and to bring it back to the facility to be administered. This was not necessary, because all medications administered to Medicare patients during clinic visits are covered under Medicare **Part-B**. In order to avoid other incidents like this, training has been provided to ensure staff awareness of the provisions under the different Medicare plans. The distinction between MP-B and MP-D is as follows:

- Medicare Part B - provides for in-clinic visits only where no prescription is necessary. When patients are seen in the facility and injectable medication is needed at the time of the visit, DHS can bill Medicare directly, under Medicare Part B, for the office visit and administration of the medication.
- Medicare Part D - provides for outpatient medication where a prescription is required. Patients are seen in the facility and medication is necessary to take home. MP-D coverage is offered through private insurance companies and not directly through the federal government.

Prior to the implementation of MP-D, patients with Medicare coverage paid for their own medications as Medicare did not provide for this type of coverage, or they paid for a supplemental plan which covered medication. MP-D offers a choice of several private insurance plans that provide coverage for outpatient medication; however, patients must obtain their medications from a pharmacy provider that is part of the MP-D network. DHS is not part of the MP-D network. As a result, DHS patients are unable to get their outpatient prescriptions filled at DHS pharmacies under MP-D,

and they need either to go to a MP-D network pharmacy or to pay themselves to fill their prescriptions at DHS pharmacies.

Patients with Medicare + Medi-Cal (i.e., dual eligible or Medi+Medi) are automatically enrolled into a MP-D private insurance plan by the federal government. Patients with Medicare only coverage have MP-D as an optional plan, requiring them to enroll if they elect to pay for this coverage. Some Medicare patients elect to purchase their medications at the lower County cost rather than enroll in a MP-D plan and pay the associated monthly premiums.

OPTIONS/RECOMMENDATION

The options available to the County include the following:

1. Delayed-participation in Medicare Part D;
2. Delayed-participation in Medicare Part D, but honor prescriptions at no cost to the patient, until DHS is able to participate in the program;
3. Participate in Medicare Part D; or
4. Dual entry system.

- Delayed-Participation

The Department recommends the delayed participation option for MP-D, and we concur. Under this option, the County would delay participation in MP-D until the new outpatient pharmacy system is brought on-line; installation is anticipated to begin by early 2010 and will take approximately 1.5 to 2.5 years to implement at all 19 DHS outpatient pharmacy sites. The new outpatient pharmacy system will provide DHS with the programming and necessary billing capability to allow for dispensing and adjudication of MP-D prescriptions as part of the local MP-D network.

The new system will provide DHS with the capability of becoming part of the MP-D network as part of a system they are already plan to install. While this option does delay participation in the network, the estimated population that may be impacted by this action is relatively small, at approximately 5 percent to 7 percent (128,000 visits based on FY 2005-06 data), and there is an extensive MP-D community pharmacy network in close proximity of DHS hospital and outpatient clinics to provide the service.

In reviewing the FY 2005-06 data we have noted that out of approximately 2.0 million visits, only 128,000 involved Medicare/Medical (Medi/Medi) and Medicare patients. Of this amount, 85,000 (66 percent) were Medi/Medi patients which are entitled to receive free medications at PDP network pharmacies.

Delayed-Participation/Prescription Coverage

In this option, the County would delay participation in MP-D; however, effective upon approval by your Board, the County could establish that prescriptions for the Medi+Medi (automatically enrolled) population will be covered; the estimated cost is approximately \$4.0 to \$8.0 million annually. These expenditures would be temporary until the new DHS outpatient pharmacy system is brought on-line, thereby allowing DHS the capability of becoming part of the MP-D network. Medicare only patients are not included in this estimate as MP-D is optional and patients have enrolled and paid monthly insurance premiums.

Delayed-participation in the MP-D program while providing prescriptions free of charge to the patient is not recommended due to the fiscal constraints which DHS is currently facing. In addition, as was previously noted there is an extensive MP-D pharmacy network in close proximity to each of the DHS facilities.

Begin Participation in the Medicare Part D

A third option is for the County to participate in the MP-D program at this time. This option would require upgrades/changes to the current outpatient pharmacy system, which is maintained by the Internal Services Department (ISD), as well as contracting with each private PDP. ISD has performed a preliminary assessment of the current outpatient pharmacy information systems and concluded that significant programming changes would be necessary. In order to make these changes, the following would be required:

- Approximately six to nine months to modify the existing systems. The scope of the project is quite extensive and would impact other critical pharmacy system projects, including the migration of systems for the LAC+USC Replacement Facility.
- Modification of the existing systems will cost approximately \$75,000 to \$100,000. This is a preliminary estimate as ISD is still assessing the magnitude of the necessary programming changes.
- Separate contracts with each PDP.
 - Each Medicare Part D PDP is managed by a different private insurance contract. In order for DHS pharmacies to be included in each PDP network, a contract must be negotiated for each separate California approved PDP. This process will be lengthy and negotiations will be difficult due to possible

conflicts between the PDP's contract terms and the standard contract provisions which your Board has established as County policy.

- There is the strong possibility that new PDP contracts will have to be negotiated on an annual basis. Should MP-D plans change annually, ISD will need approximately five-weeks for reprogramming and during this period MP-D prescription billing may not be available to DHS pharmacies.

Program participation by upgrading and changing the system is not recommended due to the time and effort which must be undertaken, and most importantly the potential impact to other on-going pharmacy system projects. This includes the LAC+USC Replacement Facility.

Another significant issue are the contracts which must be negotiated with each separate California approved PDP. As noted, an initial review indicates conflicts between the PDP's contract terms and the standard contract provisions, which your Board has established as County policy. Some Counties have reported that in order to enter into a contract with an approved PDP, they were required to accept the agreement verbatim. There is no incentive on the part of the PDPs to negotiate with the County as they have a very extensive network of pharmacies within Los Angeles County.

Dual Entry System

The following option is being reviewed as a potential interim measure with delayed participation until the outpatient pharmacy system is installed. The Department is reviewing this option and its potential costs, but is not recommending pursuing this at this time.

It is our understanding that many years ago, DHS utilized a separate pharmacy system to process prescriptions for HIV patients allowing DHS to bill the State for these medications through the required online process -- similar to the requirements for MP-D. The separate system required each DHS pharmacy to utilize dual entry (entering a prescription into two systems), one for billing/adjudication and the other for physical dispensing of the medication. It may be possible to re-install this dual entry system at DHS sites to meet the MP-D requirements.

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Although, this option would require dual processing of prescriptions, it would provide the ability of moving forward with implementing MP-D at this time, without impacting crucial programming changes that are in the cue for the current pharmacy system, which is one of the major drawbacks noted above. However, the issues as to contract negotiations with the PDP networks would still need to be addressed.

If you have any questions, please contact me or your staff may contact Latisha Thompson of my staff at (213) 974-1157 or lthompson@ceo.lacounty.gov.

WTF:SRH:SAS
MLM:LT:bjs

c: Executive Officer, Board of Supervisors
 County Counsel
 Interim Director, Department of Health Services
 Chief Medical Officer, Department of Health Services

Medicare Part D Item S-1 Agenda of 080508